

Inspector General

United States
Department of Defense



Agreed-Upon Procedures for Reviewing the
FY 2010 Civilian Payroll Withholding
Data and Enrollment Information

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Arlington, VA 22202-4704



Acronyms and Abbreviations Used in the Report and the Attachments

CSRS	Civil Service Retirement System
DFAS	Defense Finance and Accounting Service
DOE	Department of Energy
EPA	Environmental Protection Agency
FEGLI	Federal Employees Group Life Insurance
FEHB	Federal Employee Health Benefits
FERS	Federal Employees Retirement System
HHS	Health and Human Services
ODO	Other Defense Organizations
OPF	Official Personnel File
OPM	Office of Personnel Management
RITS	Retirement and Insurance Transfer System
VA	Department of Veterans' Affairs



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-4704

September 30, 2010

MEMORANDUM FOR ASSISTANT SECRETARY OF THE ARMY
(FINANCIAL MANAGEMENT AND COMPTROLLER)
ASSISTANT SECRETARY OF THE AIR FORCE
(FINANCIAL MANAGEMENT AND COMPTROLLER)
CHIEF, NATIONAL GUARD BUREAU
DIRECTOR, DEFENSE FINANCE AND
ACCOUNTING SERVICE
NAVAL INSPECTOR GENERAL
AUDITOR GENERAL, DEPARTMENT OF THE ARMY
INSPECTOR GENERAL, DEPARTMENT OF ENERGY
INSPECTOR GENERAL, DEPARTMENT OF HEALTH
AND HUMAN SERVICES
INSPECTOR GENERAL, DEPARTMENT OF
VETERANS' AFFAIRS
INSPECTOR GENERAL, ENVIRONMENTAL
PROTECTION AGENCY
INSPECTOR GENERAL, OFFICE OF
PERSONNEL MANAGEMENT

SUBJECT: Agreed-Upon Procedures for Reviewing the FY 2010 Civilian Payroll Withholding
Data and Enrollment Information (Report No. D-2010-089)

We are providing this final report for your information and use.

We appreciate the courtesies extended to the staff. Please direct questions to me at
(703) 601-5868 (DSN 329-5868).

Patricia A. Marsh
Patricia A. Marsh, CPA
Assistant Inspector General
Defense Business Operations



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-4704

September 30, 2010

The Honorable Patrick E. McFarland
Inspector General
U.S. Office of Personnel Management
Theodore Roosevelt Federal Building
1900 E Street NW, Room 6400
Washington, D.C. 20415-0001

Subject: Independent Auditor's Report on the Agreed-Upon Procedures for Reviewing
the FY 2010 Civilian Payroll Withholding Data and Enrollment Information

Dear Mr. McFarland:

We performed the procedures described in the Attachment, which were agreed to by the Chief Financial Officer and the Inspector General of the U.S. Office of Personnel Management (OPM). We performed these procedures solely to assist in assessing the reasonableness of the employee withholdings and employer contributions that the Defense Finance and Accounting Service (DFAS) reported on Standard Form 2812, "Report of Withholdings and Contributions for Health Benefits, Life Insurance, and Retirement," for the pay periods ending August 29, 2009; October 24, 2009; and February 27, 2010; and reported in the "Supplemental Semiannual Headcount Report," as of September 1, 2009, and March 1, 2010. The reports submitted by DFAS included information for the following entities listed in Appendix A of the Office of Management and Budget Bulletin No. 07-04, "Audit Requirements for Federal Financial Statements," as amended: the Department of Defense (DOD), Department of Energy (DOE), Department of Health and Human Services (HHS), Department of Veterans' Affairs (VA), and the Environmental Protection Agency (EPA).

By using Audit Command Language software, we randomly selected a sample of 360 employees from the October 24, 2009, pay period from the eight DFAS payroll data files (Army, Navy, Air Force, Other Defense Organizations [ODO], DOE, HHS, VA, and the EPA). We compared the sample of 360 employees' pay and withholdings and agency contributions in the Defense Civilian Pay System to the documentary support in the Official Personnel Files (OPF). Of the 360 OPFs, 180 represented DOD employees, 45 represented DOE employees, 45 represented HHS employees, 45 represented VA employees, and 45 represented EPA employees.

Auditors from the DOE Inspector General performed the agreed-upon procedures that involved reviewing DOE OPFs. Auditors from the HHS Inspector General performed the agreed-upon procedures that involved reviewing HHS OPFs. We reviewed their working papers and determined that we can rely on their work.

We performed the agreed-upon procedures in accordance with generally accepted government auditing standards, which incorporate financial audit and attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the OPM Chief Financial Officer and the OPM Inspector General. Consequently, we make no representation regarding the sufficiency of the procedures either for the purpose for which this report has been requested or for any other purpose.

We were not engaged to express an opinion on whether the Health Benefits, Life Insurance, and Retirement contributions and withholdings, and enrollment information submitted by DFAS to OPM, are reasonable and accurate. Accordingly, we did not conduct an examination nor do we express such an opinion. Had we performed additional procedures, other matters might have come to our attention that we would have reported to you. We provided a discussion draft of this report to the entities listed in the transmittal memorandum.

This report is intended solely for the information and use of the OPM Chief Financial Officer and OPM Inspector General and is not intended to be used by those who have not agreed to the procedures or have not taken responsibility for the sufficiency of the procedures for their purposes. However, the report is a matter of public record and its distribution is not limited; thus, we will post the report on our Web site and provide copies upon request.

Sincerely,


Patricia A. Marsh
Assistant Inspector General
Defense Business Operations

Attachment:
As stated

Attachment: Agreed-Upon Procedures Performed and Results

This section contains the OPM AUPs and the results of completing those procedures.

Overall Procedure

For employee benefit withholding and contributions, obtain the Agency Payroll Provider's September 2009 and March 2010 Semiannual Headcount Report submitted to OPM and a summary of Retirement and Insurance Transfer System (RITS) submissions for September 2009 and the current fiscal year. For each program (retirement, health, and life) select a total of three RITS submissions for September 2009 and the current fiscal year; two will coincide with the September 2009 and March 2010 Semiannual Headcount Report. Obtain payroll information for the periods covered by the RITS submissions selected.

Procedure 1.

Compare RITS submission data with payroll information by performing the following procedures (Note: For cross-servicing agencies, if the internal controls are the same for all agencies serviced, it is only necessary to perform this procedure for one agency.):

Procedure 1.a.

Recalculate the mathematical accuracy of the payroll information.

Procedure 1.b.

Recalculate the mathematical accuracy of each RITS submission for the payroll information selected in step 1.a.

Procedure 1.c.

Compare the employee withholding information at the aggregate level for Retirement, Health Benefits, and Life Insurance (as adjusted for reconciling items) shown on the payroll information obtained in step 1.a. to the related amounts shown on the RITS submission for the corresponding period.

Report any differences for each of the Retirement, Health Benefits, and Life Insurance (categories) for step 1.c. that are over one percent of the aggregate amount reported for each of the three categories. Obtain from management a management official name, an explanation, telephone number, and an email address for the differences above the one percent threshold.

Results

There were no differences greater than one percent for this comparison.

Procedure 2.

(See Procedures 2.a.-j.)

Procedure 2.a.

Randomly select a total of 25 individuals who were in the payroll system for all three of the RITS submissions selected above that meet all the following criteria:

- covered by the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS);
- enrolled in the Federal Employees Health Benefit Program (FEHB);
- covered by Basic Life Insurance; and
- covered by at least one Federal Employees' Group Life Insurance (FEGLI) optional coverage (Option A, B or C).

Procedure 2.b

Obtain the following documents, either in electronic or hard copy format, from the Official Personnel File (OPF) for each individual selected in step 2.a. Hard copies can be originals or certified copies.

- All Notifications of Personnel Actions (SF-50) covering the pay periods in the RITS submissions chosen;
- The Health Benefits Election Form (SF-2809) covering the pay periods in the RITS submissions chosen or, if applicable, obtain a report (via the agency personnel office) from the agency's automated system that allows participants to change benefits, (e.g., Employee Express), for any Health Benefits transactions in that system for the individuals selected in step 2.a. (note: a new SF-2809 is needed only if an employee is changing health benefit plans, therefore, the form could be many years old); and
 - For Health Benefits, compare date of transaction with date on the certified copy of the SF-2809 or the agency's automated system report obtained above to identify whether the health benefit information to be used in the step 2.f. covers the pay periods in the RITS submissions chosen.
- The Life Insurance Election Form (SF-2817) covering the pay periods in the RITS submission chosen (note: a new SF-2817 is needed only if an employee is changing life insurance coverage, therefore the form could be many years old).

Results

We identified 26 documents from the Army, ODO, VA, and EPA that were either missing or incomplete. DOE auditors identified four missing or incomplete documents from DOE, and HHS auditors identified two missing or incomplete documents from HHS. The following table identifies the number and type of documents missing or incomplete from the respective organization.

Number and Type of Missing or Incomplete Documents by Organization

Organization	SF-50	SF-2809	SF-2817
Army	1		1
ODO			1
DOE	1		3
HHS			2
VA	2	8	9
EPA	1	3	

Procedure 2.c.

For each individual selected in step 2.a., compare the base salary used for all payroll purposes and upon which withholdings and contributions generally are based to the base salary reflected on the employee's SF-50. Report any differences resulting from this step and obtain management's explanation for the differences.

Results

We found one difference for Army, two for Navy, one for ODO, three for VA, and one for EPA. In some cases, the applicable SF-50s were either missing or retroactive pay adjustments or calculation errors requiring adjustments by DFAS caused differences between the pay system amounts and our calculations. In other cases, either Human Resources or DFAS management did not respond or provide further explanation.

Procedure 2.d.

For Retirement for each individual selected in step 2.a., compare the retirement plan code from the employee's SF-50 to the plan code used in the payroll system. Report any differences resulting from this step and obtain management's explanation for the differences.

Results

We found one difference for Army. Human Resource management explained the difference stating that the Army employee had several issues with his retirement code. For example, his retirement code was not changed correctly at the time that his temporary appointment changed to career-conditional. Later, he was mistakenly placed under FERS, then CSRS-Special, and eventually corrected in April 2010 to CSRS Partial (CSRS Offset).

Procedure 2.e.

For each individual selected in step 2.a., calculate the retirement amount to be withheld and contributed for the plan code from the employee's SF-50, by multiplying the base salary from the employee's SF-50 by the official withholding and contribution rates required by law. Compare the calculated amounts to the actual amounts withheld and contributed for the retirement plan. Report any differences resulting from this step and obtain management's explanation for the differences.

Results

We found two differences for Army, three for Navy, one for ODO, two for EPA, and three for VA. In some cases, the applicable SF-50s were missing, an erroneous code was used on the SF-50, or retroactive pay adjustments or calculation errors requiring adjustments by DFAS caused differences between the pay system amounts and our calculations. In other cases, either Human Resources or DFAS management did not respond or provide further explanation.

Procedure 2.f.

For Health Benefits for each individual selected in step 2.a, compare the employee withholdings and agency contributions to the official subscription rates issued by OPM for the plan and option elected by the employee, as documented by a Health Benefits Election Form (SF-2809) in the employee's OPF or automated system that allows the participant to change benefits (e.g., Employee Express). Report any differences resulting from this step and obtain management's explanation for the differences.

Results

We found one difference for Navy, eight for VA, and four for EPA. In some cases, the applicable SF-2809s were missing or retroactive pay adjustments or calculation errors requiring adjustments by DFAS caused differences between the pay system amounts and our calculations. In other cases, either Human Resources or DFAS management did not respond or provide further explanation.

Procedure 2.g.

For Life Insurance for each individual selected in step 2.a, confirm that Basic life Insurance was elected by the employee by inspecting the Life Insurance Election Form (SF-2817) documented in the employee's OPF. Report any differences resulting from this step and obtain management's explanation for the differences.

Results

We did not find any differences for this comparison.

Procedure 2.h.

For each individual selected in step 2.a., calculate the withholding and contribution amounts for Basic Life Insurance using the following:

- For employee withholdings: Round the employee's annual base salary up to the nearest thousand dollars and add \$2,000. Divide this total by 1,000 and multiply by the rate required by law.
- For agency contributions: Divide the employee withholdings calculated above by two.

Compare the calculated employee withholdings and agency contributions to the actual amounts withheld and contributed for Basic Life Insurance. Report any differences resulting from this step and obtain management's explanation for the differences.

Results

We found one difference for Army, three for Navy, one for ODO, two for EPA, and two for VA. In some cases, the applicable SF-50s or SF-2817s were missing or incomplete, or retroactive pay adjustments or calculation errors requiring adjustments by DFAS caused differences between the pay system amounts and our calculations. In other cases, either Human Resources or DFAS management did not respond or provide further explanation.

Procedure 2.i.

Also, for Life Insurance for each individual selected in step 2.a., compare optional coverage elected as documented on the SF-2817 in the employee's OPF to the optional coverage documented in the payroll system. Report any differences resulting from this step and obtain management's explanation for the differences.

Results

We identified one difference for the Navy and nine for VA. DOE auditors identified four differences for DOE. HHS auditors identified two differences. In some cases, the applicable SF-2817s or SF-50s were missing or incomplete. In other cases, either Human Resources or DFAS management did not respond or provide further explanation.

Procedure 2.j.

For each individual selected in step 2.a., calculate the withholding amounts for optional life insurance using the following:

- For Option A: Locate the employee's age group using the age groups provided for Option A in the FEGLI Program Booklet. The withholding amount to be used is the rate listed in the FEGLI Program Booklet for that age group. Compare the calculated amount to the amount withheld for Option A Life Insurance. Report any differences resulting from this step and obtain management's explanation for the differences.
- For Option B: Inspect the SF-2817 to obtain the number of multiples chosen for Option B. Locate the employee's age group using the age groups provided for Option B in the FEGLI Program Booklet. Round the employee's annual rate of basic pay up to the next 1000, divide by 1000, and multiply by the rate for the respective age group. Multiply this amount by the number of multiples chosen for Option B Life Insurance. Compare the calculated amount to the amount withheld for Option B Life Insurance. Report any differences resulting from this step and obtain management's explanation for the differences.

- For Option C: Inspect the SF-2817 to obtain the number of multiples chosen for Option C. Locate the employee's age group using the age groups provided for Option C in the FEGLI Program Booklet. Multiply the rate for the age group by the number of multiples chosen for Option C Life Insurance. Compare the calculated amount to the amount withheld for Option C Life Insurance. Report any differences resulting from this step and obtain management's explanation for the differences.

Results

We identified one difference for the Army, four for the Navy, one for ODO, twelve for VA, and two for EPA. DOE auditors identified five differences. HHS auditors identified two differences. In some cases, the applicable SF-2817s or SF-50s were missing or incomplete, or retroactive pay adjustments or calculation errors requiring adjustments by DFAS caused differences between the pay system amounts and our calculations. In other cases, either Human Resources or DFAS management did not respond or provide further explanation.

Procedure 3.

Randomly select a total of 10 employees who have no Health Benefits withholdings from the payroll information corresponding to the three RITS submissions selected above and perform the following for each employee selected.

Procedure 3.a.

Obtain SF-2809s covering the pay periods in the RITS submissions chosen, either in electronic or hard copy format, from the selected employee's OPF or, if applicable, obtain a report (via the agency personnel office) from the agency's automated system that allows participants to change benefits, (e.g., Employee Express), for any Health Benefit transactions in that system for the individuals selected. Hard copies can be originals or certified copies. Inspect the documentation (that is, SF-2809 or the agency's system-generated report) to identify whether health benefits coverage was not elected. This can be identified in the following ways:

- absence of an SF-2809 in the OPF and no election of coverage made through the agency's automated system that allows participants to change benefits (e.g., Employee Express); or
- an SF-2809 in the OPF with Section E checked (indicating cancellation of coverage) and no later election of coverage through the agency's automated system that allows participants to change benefits (e.g., Employee Express); or
- cancellation of coverage through the agency's automated system that allows participants to change benefits (e.g., Employee Express) and no later election of coverage with an SF-2809.

Procedure 3.b.

Compare the result in step 3.a. to the RITS submissions. Report any differences resulting from this step and obtain management's explanation for the differences.

Results

We identified one difference for Army and one for VA. The applicable SF-2809s were missing or incomplete.

Procedure 4.

Randomly select a total of 10 employees who have no Life Insurance withholdings from the payroll information corresponding to the three RITS submissions selected above and perform the following for each employee selected.

Procedure 4.a.

Obtain the SF-2817s covering the pay periods in the RITS submissions chosen, either in electronic or hard copy format, from the selected employee's OPF. Hard copies can be originals or certified copies. Inspect the SF-2817 to identify that the employee waived or cancelled Basic Life Insurance coverage.

Procedure 4.b.

Compare the result in step 4.a. to the RITS submissions. Report any differences resulting from this step and obtain management's explanation for the differences.

Results

We identified one difference for the National Guard and one for VA. DOE auditors identified one difference, and HHS auditors identified one difference. The waivers were either missing or incomplete.

Procedure 5.

Calculate the headcount reflected on the September 2009 and March 2010 Semiannual Headcount Report selected, as follows.

Procedure 5.a.

Obtain existing payroll information (from step 1.a.) supporting each Supplemental Semiannual Headcount report. If existing payroll data is not available, obtain a payroll system query that summarizes detailed payroll data supporting each Supplemental Semiannual Headcount Report, as follows:

- Benefit Category (see Semiannual Headcount Report).
- Dollar Amount of withholdings and contributions.

- Number Enrolled (deductions made/no deductions).
- Central Personnel Data File Code.
- Aggregate Base Salary.

Procedure 5.b.

Recalculate the Headcount reflected on each Semiannual Headcount Report. If an electronic file is not available, a suggested method of recalculating the Headcount is as follows: (1) estimate the number of employees per payroll register page by counting the employees listed on several pages, (2) count the number of pages in the payroll register, and (3) multiply the number of employees per page by the number of pages, or count (using a computer audit routine) the number of employees on the payroll data file for the period.

Procedure 5.c.

Compare the payroll information obtained in step 5.a. and the calculated headcount from step 5.b. to the information shown on each respective Semiannual Headcount Report.

Procedure 5.d.

Report any differences (i.e., gross rather than net) greater than two percent between the headcount reporting on each respective agency Semiannual Headcount Report and payroll information from step 5.a. and the calculated Headcount from step 5.b. Obtain from management a management official name, telephone number, an e-mail address, and an explanation for the differences.

Results

There were no differences greater than two percent for this comparison.

Procedure 6.

Calculate employer and employee contributions for Retirement, Health Benefits, and Life Insurance as follows:

Procedure 6.a.

Calculate Retirement withholdings and contributions for the three pay periods selected in step 1.a., as follows:

Procedure 6.a.i.

Multiply the CSRS and FERS payroll base by the withholding and employer contribution rates required by law.

Procedure 6.a.ii.

Compare the calculated totals from step 6.a.i. to the related amounts shown on the RITS submissions. Report any differences (i.e., gross rather than net) between the calculated amounts and the amounts reported on the RITS submissions greater than five percent of the amounts on the RITS submission, and obtain management's explanation for the differences.

Results

There were no differences greater than five percent for this comparison.

Procedure 6.b.

Calculate employee withholdings and employer contributions for Health Benefits for the three pay periods selected in step 1.a., as follows:

Procedure 6.b.i.

Multiply the number of employees enrolled in each Health Benefits plan and plan option by the employee withholdings and employer contributions for the plan and option.

Procedure 6.b.ii.

Sum the totals in step 6.b.i. and compare the result with the Health Benefit withholding and contribution amounts shown on the RITS submissions. Report any differences (i.e., gross rather than net) between the calculated amounts and the amounts reported on the RITS submissions greater than five percent of the amounts on the RITS submission, and obtain management's explanation for the differences.

Results

There were no differences greater than five percent for this comparison.

Procedure 6.c.

Calculate the Basic Life Insurance employee withholdings and employer contributions for the three pay periods selected in step 1.a., as follows:

Procedure 6.c.i.

Obtain a payroll system query from APP personnel to obtain the total number of employees with Basic Life Insurance coverage and the aggregate annual basic pay for all employees with Basic Life Insurance.

Procedure 6.c.ii.

For employee withholdings: Add the product of 2,000 times the number of employees with Basic Life Insurance coverage from step 6.c.i above to the aggregate annual basic pay for all employees with Basic Life Insurance from step 6.c.i above to calculate the estimated total Basic Life Insurance coverage. Divide this calculated total by 1,000 and multiply by the withholding rate required by law. The Life Insurance withholding rates can be found in the FEGLI Program Booklet on OPM's website.

Procedure 6.c.iii.

Compare the result in step 6.c.ii. to the withholdings for Basic Life Insurance coverage reported on the RITS submission. Report any difference (i.e., gross rather than net) between the estimate and the amount of withholdings reported on the RITS submission greater than five percent of the amounts on the RITS submission, and obtain management's explanation for the difference.

Results

There were no differences greater than five percent with the exception of our calculation for VA, for pay period ending February 27, 2010. The difference amounted to \$189,879 (7.09%). Because of limited system capabilities and staffing resources, DOD auditors and DFAS management were not able to resolve this difference. In addition, DFAS management indicated that formulas used in OPM's Agreed-Upon Procedures need to be updated to reflect the latest changes to base pay calculations.

Procedure 6.c.iv.

For agency contributions: Divide the results of step 6.c.ii. by two—this approximates agency contributions, which are one-half of employee withholdings. Compare this result to the amount reported on the RITS submission. Report any differences (i.e., gross rather than net) between the estimated amount and the actual amount reported on the RITS submission greater than five percent of the amounts on the RITS submission, and obtain management's explanation for the differences.

Results

There were no differences greater than five percent except for VA, for pay period ending February 27, 2010. The difference amounted to \$96,040 (7.16%). Because of limited system capabilities and staffing resources, DOD auditors and DFAS management were not able to resolve the VA difference. In addition, DFAS management indicated that formulas used in OPM's Agreed-Upon Procedures need to be updated to reflect the latest changes to base pay calculations.

Procedure 6.d.

Calculate the Option A, Option B and Option C Life Insurance coverage withholdings for the three pay periods selected by using detail payroll reports used to reconcile the RITS reports in Step 1. In addition to the information used for step 1, the reports should include the employee's date of birth, annual rate of basic pay, and number of multiples selected for Option B and C. Note: While similar to step 2.j., the calculation at this step is for the entire amount reported on the RITS submissions for the three pay periods selected, as opposed to the sample of 25 employees in step 2.j.

Procedure 6.d.i.

Multiply the number of employees in each age group by the appropriate rate for Option A in accordance with the rates for age groups provided in the FEGLI Program Booklet.

Procedure 6.d.ii.

Compare the result in step 6.d.i. to the amounts for Option A reported on the RITS submissions. Report any differences (i.e., gross rather than net) greater than two percent of the amounts on the RITS submission, and obtain management's explanation for the differences.

Results

There were no differences greater than two percent for this comparison.

Procedure 6.d.iii.

Segregate the reports for Option B and Option C insurance into the age groups shown in the FEGLI Program Booklet. For Option B, round the employee's annual rate of basic pay up to the next 1000, divide by 1000, multiply by the rate for the age group, multiply this by the number of multiples:

$(\text{Annual rate of basic pay (rounded up)} / 1000 * \text{rate} * \text{multiples})$.

For Option C, multiply the rate for the age group by the number of multiples chosen for each employee.

Procedure 6.d.iv.

Compare the result in step 6.d.iii. to the amounts for Option B and Option C, respectively, reported on the RITS submissions. Report any differences (i.e., gross rather than net) greater than two percent of the amounts on the RITS submission for Option B or Option C, and obtain management's explanation for the differences.

Results

There were no differences greater than two percent for this comparison, with the exception of the HHS and Overseas DOD Option B calculations and the HHS Option C calculations. The HHS Option B calculations created a difference of 2.02% and affected pay period ending August 29, 2009. The Overseas DOD Option B calculations created a difference of 2.72% and affected pay period ending February 27, 2010. DOD auditors and DFAS management were not able to resolve the HHS and Overseas DOD Option B differences. DFAS management indicated that formulas used in OPM's Agreed-Upon Procedures need to be updated to reflect the latest changes to base pay calculations. The HHS Option C calculations created a difference of 3.99% and affected pay period ending October 24, 2009. DFAS management explained that a retroactive refund of premiums caused the difference.



Inspector General Department of Defense

